

# CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

HMN Financial, Inc.

Point of Contact:	Jon Eberle, CFO	RSSD: (For Bank Holding Companies)	N/A
UST Sequence Number:	295	Docket Number: (For Thrift Holding Companies)	H2309
CPP/CDCI Funds Received:	26,000,000	FDIC Certificate Number: (For Depository Institutions)	N/A
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	December 23, 2008	City:	Rochester
Date Repaid <sup>1</sup> :	N/A	State:	Minnesota

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

The CPP funds improved our capital position and allowed us to continue to lend in 2010 despite the elevated level of our non-performing loans and the net operating losses we experienced.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

Non-performing assets increased \$7.1 million and specific reserves on these assets increased \$13.0 million during 2010 due to a decrease in the value of the real estate collateralizing the loans. The CPP funds allowed us to maintain a well capitalized status despite the increased reserves recorded.

☐ Reduce borrowings.

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☒ **Increase charge-offs.**

Net charge-offs remained elevated and totaled \$14.4 million in 2010. The CPP funds allowed us to maintain a well capitalized status despite the elevated level of charged offs experienced.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The CPP funds improved HMN's capital position and allowed us to continue to lend to credit worthy borrowers despite the elevated level of non-performing assets and the net operating losses experienced due to an elevated loan loss provision. Without the CPP funds, the Bank would have had to decrease the size of our existing loan portfolio even more dramatically in order to reduce the risk of our capital falling below acceptable levels. The CPP funds allowed us to maintain our well capitalized status during 2010. Without the CPP funds, the continued net operating losses we have experienced as a result of the elevated loan loss provision amounts would have reduced our capital levels to an amount below the well capitalized level.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.